

**WATER/ICRJ/FLC/KKL/RHG/LTR\***

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**WATER DIVISION  
AUDIT AND COMPLIANCE BRANCH**

**RESOLUTION W-4313  
December 11, 2001**

**R E S O L U T I O N**

**RESOLUTION W-4313. WATERTEK, INC. (WATERTEK),  
OAK HILLS DISTRICT (OHD). ORDER AUTHORIZING  
AN INTERIM GENERAL RATE INCREASE, SUBJECT TO  
REFUND, PRODUCING ADDITIONAL GROSS ANNUAL  
REVENUE OF \$65,936 (59.9%).**

**By Draft Advice Letter Filed on June 11, 2001.**

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**SUMMARY**

This Resolution grants Watertek, a sewer utility, an interim increase in gross annual revenue of \$65,936 for its OHD, subject to refund. The increase will provide Watertek with no rate of return on its rate base, but with sufficient monies to pay for current cash operating expenses in this district.

By Draft Advice Letter filed June 11, 2001, Watertek requests authority under Section VI of General Order (G.O.) No. 96-A and Section 454 of the Public Utilities (P.U.) Code to increase rates in the OHD by \$134,453 or 116.04%, in the year 2001.

Six letters were received from customers of the OHD objecting to the proposed interim rate increase.

**BACKGROUND**

Watertek provides sewer service to the subdivisions of Oak Hills, Indian Springs, and the community of Spreckels, in the vicinity of Salinas, Monterey County. There are approximately 448 flat rate customers in the Oak Hills District. The rates for the Indian Springs and Spreckels Districts are not included or affected by this filing. Watertek also provides water service to customers in its Grandview District and owns the Metropolitan Water Company.

Pursuant to its 2000 Annual Report, Watertek reported that its OHD generated total operating revenues of \$110,135, with a net loss of \$17,432. In view of the negative cash flow problem, the owner of Watertek has absorbed costs that normally would be included in rates. Watertek's filing indicates that system repairs to the existing sewer system and manpower support are likewise needed to continue operations and service.

OHD's current rate was established on February 2, 1998, pursuant to Decision (D.) 92-03-093, which authorized all Class C and D water utilities to file once a year by advice letter for a rate increase based on the most recent year-end increase in the Consumer Price Index (CPI-U). OHD's last general rate increase became effective on March 13, 1991, pursuant to resolution W-3547, which authorized an increase of \$39,214, or 59.6%, and a rate of return of 11.00%.

### **NOTICE AND PROTESTS**

By a letter dated August 16, 2001, Watertek notified the OHD customers of its requested general rate increase in gross annual revenue of \$134,453, or 116.04%, and a proposed interim rate increase of \$15,932 (subject to refund). A second notice was sent to the customers on October 5, 2001, showing a revised interim rate increase of \$65,936. The Water Division received six letters from customers opposing the proposed increases. Water Division has replied to each letter individually.

### **DISCUSSION**

As part of the Risk Order Instituting Investigation (Risk OII, I.90-11-033), the Commission, in D.92-03-093, adopted new policies in response to the growing economic crisis that threatened the small (Class C and D) investor-owned water utility's ability to deliver clean, safe drinking water. Through D.92-03-093, the Commission determined that traditional ratemaking policies, which were satisfactory for large water utilities, were only sporadically successful in coping with the problems of the smaller Class C and D water utilities. Some of the policies adopted included simplified rate filings based on the Consumer Price Index, a new method to recover unanticipated repair costs deemed critical to continued service, an increased range of rate of return, and a number of streamlined procedures to simplify and speed regulatory review in order to encourage small water utilities to see Commission review of their operations as part of a more substantial adjustment in rates.

The Commission's on-going concern regarding the processing time for small water utility's transactions resulted in the creation of the Service Guarantee Plan

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for Small Water Companies (Plan) issued in February of 1996. The Plan provides an almost immediate simple mechanism to process an interim rate increase,

usually within 45 days of filing. The interim increase, subject to refund, is based on a cash flow analysis. The analysis determines the amount a utility needs to operate and to pay its bills, including debt service. This Resolution implements this mechanism for Watertek's OHD.

In this case, the interim has been delayed due to revisions in the amount requested and the procedural time required for comments from interested parties.

Water Division determined, during its initial investigation, that Watertek was incurring additional expenses in 2001 that it had not incurred in 2000. Expenses such as office rent and salaries (office, plant operator, and management) were either not included or fully accounted in the reported operating loss in 2000. It was then determined that gross annual revenues would need to be increased by \$65,936, or 59.9%, in order for Watertek to meet its actual cash flow requirements in 2001.

In order to respond to Watertek's negative cash flow problem, Water Division recommends that the proposed interim rate shown below be granted, subject to refund, pending the final result of the staff investigation needed to set permanent rates. The proposed interim rate is:

#### Oak Hills District

	<u>Per Quarter</u>	
	<u>Present</u>	<u>Interim Proposed</u>
For each residential and small commercial service connection . . . . .	\$64.66	\$101.44

#### **COMMENTS**

The Water Division mailed the draft resolution and notice to parties in this matter in accordance with Public Utilities Code 311(g)(1) and Rule 77.7 (b) of the Rules of Practice and Procedure. Comments on the draft resolution were received on November 21, 2000. No reply comments were received.

The comments filed suggested that the Commission should authorize the interim rate increase of \$15,932, or 14.47%, as originally requested rather than the revised interim increase of \$65,936, or 59.9%. Comments state that the original increase would "generate positive cash flow for the current year until further

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investigation of financial records supporting the petitioner's actual figures can be justified." No factual documentation was given to justify this statement.

As was stated previously, the Water Division's investigation revealed that Watertek's gross annual revenues would need to be increased by \$65,936, or 59.9%, in order to meet actual cash flow requirements in 2001. The Water Division cannot justify a lesser increase than what is necessary to meet a utility's cash flow requirements. Therefore, the Water Division recommends that the Commission approve the interim rate increase of \$65,936 or 59.9%, subject to refund.

### **FINDINGS**

1. The interim rates recommended by the Water Division (Appendix A) are reasonable and should be adopted.
2. The rate increase authorized herein should be subject to refund pending the completion of the staff investigation of Watertek's general rate increase request.
3. Comments were filed on November 21, 2001. No reply comments were received.

### **THEREFORE, IT IS ORDERED THAT:**

1. Watertek, Inc. is authorized to file an advice letter adopting the revised Schedule No. 2, Flat-Rate Service, attached to this Resolution as Appendix A, and to concurrently cancel its presently effective rate schedule. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall not be earlier than five days after the date of its filing.
2. The rate increase authorized herein is subject to refund pending final resolution of Watertek, Inc. Oak Hills District permanent rate increase request.
3. The Advice Letter and tariff sheets shall be marked to show that they were authorized by Resolution W-4313.

4. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on December 11, 2001; the following Commissioners voting favorably thereon:

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WESLEY M. FRANKLIN  
Executive Director

LORETTA M. LYNCH  
President  
HENRY M. DUQUE  
RICHARD A. BILAS  
CARL W. WOOD  
GEOFFREY F. BROWN  
Commissioners

**APPENDIX A**

**Schedule No. 2**

**FLAT-RATE SERVICE**

**APPLICABILITY**

Applicable to all flat-rate service.

**TERRITORY**

Subdivisions of Oak Hills and Indian Springs, and the community of Spreckels, in the vicinity of Salinas, Monterey County.

**RATES**

	<u>Per Quarter</u>		<u>Per Month</u>
	<u>Oak Hills</u>	<u>Spreckels</u>	<u>Indian Springs</u>
For each residential and small commercial service connection . . . . .	\$101.44 ( I )	\$107.00	\$44.19
For each service connection of a school . . . . .		\$160.00	
For each service connection of a commercial establishment with 4 or more employees . . . . .		\$214.00	
For each industrial service connection . . . . .		\$641.00	

**SPECIAL CONDITIONS**

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. Spreckels customers may remit quarterly bills in three equal installments on the first day of the month.